

立法會

Legislative Council

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Panel on Commerce and Industry

Meeting on 21 September 2021

Updated background brief on SME Financing Guarantee Scheme - Special 100% Guarantee Product

Purpose

This paper provides updated background information on the Special 100% Guarantee Product under the SME Financing Guarantee Scheme ("SFGS"). It also provides a summary of views and concerns expressed by Members of the Finance Committee ("FC") and the Panel on Commerce and Industry ("the Panel") on the subject during relevant discussions in recent years.

Background

2. The Hong Kong Mortgage Corporation Limited ("HKMC")¹ launched the market-based self-financing SFGS on 1 January 2011 with a view to helping Hong Kong enterprises, particularly small and medium enterprises ("SMEs"), to obtain financing to meet their needs. Under SFGS, HKMC acts as guarantor for up to 70% of the approved loans that enterprises obtain from participating lending institutions ("PLIs").

Special 100% Guarantee Product

3. Subsequently, the Government introduced the 80% and 90% Guarantee Products under SFGS in May 2012 and December 2019 to provide 80% and 90% loan guarantees respectively. To help enterprises hard hit by the coronavirus disease-2019 ("COVID-19") epidemic cope with cash flow problems, the Government launched the Special 100% Guarantee Product on 20 April 2020 to

¹ To accord with HKMC's business development, effective from 1 May 2018, the SFGS business has been transferred to and carried out by the HKMC Insurance Limited, a wholly owned subsidiary of HKMC.

provide 100% loan guarantee, for one-year until 19 April 2021, for enterprises that have suffered at least a 30% decline in sales turnover. As at 28 February 2021, a total of \$45.3 billion of loans had been approved, benefitting over 21 000 enterprises, which involved over 260 000 employees.

Enhanced Special 100% Guarantee Product

4. As the COVID-19 epidemic has been lingering on for over one year, to continue to relieve the cash flow pressure of SMEs, the Financial Secretary announced in the 2021-2022 Budget: (a) extending the application period of the Special 100% Guarantee Product to 31 December 2021; (b) increasing the maximum loan amount per enterprise from the total amount of employee wages and rents for 12 months to that for 18 months, subject to a ceiling of \$6 million; (c) extending the maximum repayment period from five years to eight years; and (d) extending the maximum duration of principal moratorium from 12 months to 18 months. The new enhancement measures came into effect on 29 March 2021 and the major features are in **Appendix I**.

Latest development

5. According to the Administration, as at end of July 2021, loans amounting to \$65.7 billion in total had been approved which exceeded the originally reserved guarantee commitment of \$50 billion. In view of this, the Administration announced on 25 August 2021 that it will seek an addition commitment of \$35 billion from FC and extend the application period of the Special 100% Guarantee Product by six months to June 2022.

Previous discussions

6. The Panel discussed with the Administration the Special 100% Guarantee Product at the meetings on 17 March and 19 May 2020, and 16 March 2021. The subject was also discussed at FC meetings on 20 March, 17 April, 25 and 28 September 2020. The major views and concerns expressed by Members are summarized in the ensuing paragraphs.

Eligibility criteria

7. Some Members asked whether arts institutions such as music stores, dance and drawing studios, and sports institutions including gyms and martial arts training centres, as well as not-for-profit arts and recreational organizations would be eligible to apply for loans under the Special 100% Guarantee Product. They also enquired about the loan eligibility criteria with regard to the decline in sales turnover.

8. The Administration advised that the Special 100% Guarantee Product was targeted at SMEs of all sectors. Enterprises holding a valid Business Registration Certificate for at least three months by end December 2019, regardless of their business sectors, were welcome to apply. HKMC added that loan applicants were required to provide proofs that they had suffered at least a 30% decline in sales turnover in any month since February 2020 compared to the monthly average of any quarter in 2019, but not loss, in order to qualify for the loan. Noting that SMEs might not be able to provide formal financial statements to substantiate a 30% decline in sales turnover, HKMC Insurance Limited ("HKMCI") would accept their management accounts or bank statements instead.

9. The Administration further advised that enterprises which had been offered loans under other loan guarantee products could still apply under the Special 100% Guarantee Product. In order to enable the scheme to operate with flexibility, as well as to achieve the objectives of "supporting enterprises and safeguarding jobs", the Administration would not impose restrictions on how the loans could be used.

10. A Member opined that the threshold requiring loan applicants to provide proofs that they had suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019 was seemingly too high and unrealistic. Another Member enquired about the method of calculating sales turnover for professional consultancies. The Administration responded that the Special 100% Guarantee Product was designed for enterprises which suffered a substantial drop in business. Hence, it was reasonable to set the threshold of decline in sales turnover at 30%. Moreover, some Members had mentioned that during the vetting and approval of applications for the Special 100% Guarantee Product, the financial statements provided by enterprises might not reflect their actual financial position in a timely manner, and hence had suggested that enterprises provide supplementary information to the banks for consideration. HKMC supplemented that the banks could determine sales turnover in different ways, such as through bank statements and the relevant cash flow statements. If cash flow statements could not reflect an enterprise's operating situation or sales turnover, sales records could also be used as a general reference.

Loan approving procedures

11. Members expressed concern about some SMEs' difficulties in applying for loans under the Special 100% Guarantee Product, and urged the Administration to review and streamline the relevant loan approving procedures so as to help the needy SMEs in a timely manner and to look into the matter to see if the problem rested with the PLIs concerned.

12. The Administration advised that the Special 100% Guarantee Product was different from the 80% and 90% Guarantee Products in that the Government acted as guarantor for 100% of the loans provided by PLIs which would bear close to zero default risk. HKMCI had pledged to, upon receipt of an application from a PLI, approve the loan within three working days. HKMCI added that since the introduction of the Special 100% Guarantee Product, HKMCI's cooperation with PLIs had been smooth and the performance pledge of approving loans within three working days could be met provided that the requisite supporting documents were provided by the applicants. In practice, some 60% of the loan applications were approved on the same day of receipt. Applicants might compare the service of the 21 PLIs under the scheme (a list of PLIs were provided on HKMCI's website) and choose the one which best suited their requirements.

"Employment support" effect

13. Regarding "employment support" effect of the Special 100% Guarantee Product, Members enquired whether the Administration would enter into agreements with or provide incentives for loan applicants in respect of the Special 100% Guarantee Product to ensure that they would not lay off their staff within a specified period, and suggested that the Administration should compile statistics on the loan-receiving enterprises which had reduced layoffs as a result of the Special 100% Guarantee Product.

14. The Administration advised that on the premise of "supporting enterprises and safeguarding jobs", reference would be made to the employee wages and rental costs paid by loan applicants in the past six months in the course of approving applications under the Special 100% Guarantee Product. They understood that amid the current economic environment, the liquidity problem faced by SME was not confined to expenses in a particular area. If SMEs were not allowed to adjust certain costs (such as payroll costs), their liquidity problems might still be there even after they had obtained loans. HKMC explained that it would be difficult to compile statistics on or to estimate the increase/decrease in the number of layoffs where enterprises were offered/not offered loans. As the amount of loans would be determined with reference to the total payroll costs incurred by an enterprise, loan applicants intending to obtain a greater amount of loans should endeavour to minimize layoffs during the six-month period.

15. A Member suggested that the Administration should provide a 75% wage subsidy for employees directly, or allow enterprises to reduce the working hours of employees without laying them off, or provide enterprises with subsidized sick leave pay for their employees, and successful loan applicants should be required to retain at least a certain percentage of employees.

16. The Administration responded that in designing the Special 100% Guarantee Product, they had considered carefully how the policy objective of "supporting employment" could be achieved. Given that SMEs needed more flexibility in terms of liquidity amid the current economic environment, the imposition of rigid requirements in the relevant loan terms and conditions might have impact on the operation of the enterprises. There were other relief measures in the 2021-2022 Budget targeting individuals or employees. As for the suggestion of measuring the "supporting employment" effect for individual enterprises as a result of the loans, the Administration considered that there were practical difficulties in doing so. The Administration would, in reviewing the relevant initiatives, consider conducting sampling surveys on enterprises to gauge the overall effect of the initiatives.

Basis for loan calculation

17. Members enquired whether the Administration could further adjust the basis for loan calculation to allow applicants to also include costs of detention of goods and overheads such as water, electricity, lighting and gas charges in the calculation with a view to applying for more loans. The Administration advised that according to the SMEs contacted by the Administration in the past, their operating costs mainly involved rents and wages. Therefore, the Administration used these costs as the basis for calculating the loan amounts when it launched the Special 100% Guarantee Product.

Council question

18. At the Council meeting of 1 September 2021, Mr Jimmy NG asked a question on whether the Administration will introduce more measures to relieve the cash flow pressure faced by SMEs amid the epidemic, including extending the Pre-approved Principal Payment Holiday Scheme which will end in October 2021, as well as introducing interest-free loan schemes with greater loan amounts.

19. The relevant question and the Administration's reply are hyperlinked in **Appendix II**.

Latest position

20. The Administration will consult the Panel on the proposed extension of the Special 100% Guarantee Product under SFGS and seek Members' support for the funding proposal to be submitted for the approval of FC.

Relevant papers

21. A list of relevant papers is shown in the **Appendix III**.

Council Business Division 1
Legislative Council Secretariat
14 September 2021

Major features of the Enhanced Special 100% Guarantee Product under the SME Financing Guarantee Scheme (SFGS)²

Feature	Enhanced Special 100% Guarantee Product
(a) Target Segment	Local enterprises most affected by the COVID-19 epidemic
(b) Eligible Borrower	<p>Eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310). Listed companies, lending institutions and affiliates of lending institutions are not eligible for the Scheme.</p> <p>Applicants need to provide proofs that they have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any preceding quarter from early 2019 to mid-2020 (previously any quarter in 2019).</p>
(c) Business Operation History	<p>Extended to provide assistance to enterprises newly set up at the beginning of the outbreak of COVID-19 epidemic.</p> <p>They must have business operation for at least three months by end June 2020 (previously end December 2019).</p>
(d) Approval of Credit Facility	By the lending institutions, based on the relevant eligibility criteria
(e) Guarantee Coverage	100%
(f) Maximum Guarantee Period	Extended from five years to eight years
(g) Maximum Amount of Credit Facility Per Enterprise	<p>Up to the total amount of employee wages and rents for 18 months (previously 12 months), the loan ceiling raised from \$5 million to \$6 million.</p> <p>Rent can be calculated on the basis of rateable value of</p>

² Extracted from the Administration's paper on "Enhanced Measures for Supporting Small and Medium Enterprises" [LC Paper No. CB(1)647/20-21(05)].

Feature	Enhanced Special 100% Guarantee Product
(including its related companies) at any point in time	<p>business premise.</p> <p>For enterprises that do not have employee(s) and rented office(s), proxy is made to 50% of the highest monthly net income of the enterprise from early 2019 to mid-2020 multiplied by 18.</p> <p>Enterprises are eligible for the Special 100% Guarantee Product up to the maximum of \$6 million regardless of its related companies (whether with the same business nature or otherwise) or its existing credit facilities guaranteed under the 80% or 90% Guarantee Products, if any.</p>
(h) Reuse of Guarantee Amount after Loan Repayment	Not applicable
(i) Form of Credit Facilities	Term loans only
(j) Use of Credit Facilities	The credit facility must not be used for repaying, restructuring or repackaging existing debts due by the borrower to the relevant lending institution.
(k) Maximum Loan Interest Rate, which will be reviewed from time to time	Prevailing floating interest rate is 2.75% per annum (Equivalent to the Hong Kong Prime Rate announced by The Hong Kong Mortgage Corporation Limited from time to time minus 2.5% per annum)
(l) Personal Guarantee by Individual Shareholder(s)	Personal guarantee by individual shareholder(s), directly or indirectly, holding more than 50% of the equity interest of the enterprise is required.
(m) Guarantee Fee	Nil
(n) Principal Moratorium Arrangement	Existing and new SME borrowers may apply before 31 December 2021 to the relevant lending institutions for principal moratorium of up to 18 months (previously 12 months).

Feature	Enhanced Special 100% Guarantee Product
(o) Application period	Until 31 December 2021
(p) Maximum Guarantee Commitment Provided by the Government	\$50 billion (Commitment under the three guarantee products may be used interchangeably, subject to the total commitment remaining within \$183 billion.)
(q) Total Guarantee Committed (as at end January 2021)	\$42.7 billion (Total remainder of loan guarantee commitment for interchangeable use at \$69.2 billion)

Appendix II

List of relevant Council question

Date of Council meeting	Question
1/9/2021	Question No. 6 on "Support for enterprises amid the epidemic" (Government press release)

List of relevant papers

Date of meeting	Meeting	Paper
29/10/2019	Panel on Commerce and Industry	Administration's paper on "Enhanced support to small and medium enterprises" (LC Paper No. CB(1)34/19-20(06)) Minutes of meeting (LC Paper No. CB(1)246/19-20)
17/3/2020	Panel on Commerce and Industry	Administration's paper on "SME Financing Guarantee Scheme - Special 100% Guarantee Product" (LC Paper No. CB(1)449/19-20(05)) Minutes of meeting (LC Paper No. CB(1)604/19-20)
20/3/2020	Finance Committee	Administration's paper on SME Financing Guarantee Scheme (FCR(2019-20)48) Minutes of meeting (LC Paper No. FC285/19-20)
17/4/2020 & 18/4/2020	Finance Committee	Administration's paper on Anti-epidemic Fund and SME Financing Guarantee Scheme (FCR(2020-21)2) Minutes of meetings (LC Paper No. FC24/20-21)
19/5/2020	Panel on Commerce and Industry	Administration's paper on "Support for small and medium enterprises" (LC Paper No. CB(1)603/19-20(03)) Minutes of meeting (LC Paper No. CB(1)802/19-20)

Date of meeting	Meeting	Paper
25/9/2020 & 28/9/2020	Finance Committee	Administration's paper on Anti-epidemic Fund and other relevant measures (FCR(2020-21)71) Minutes of meeting (LC Paper No. FC127/20-21) (LC Paper No. FC135/20-21)
16/3/2021	Panel on Commerce and Industry	Administration's paper on "Enhanced Measures for Supporting Small and Medium Enterprises" (LC Paper No. CB(1)647/20-21(05)) Minutes of the meeting (LC Paper No. CB(1)981/20-21)
31/3/2021 (Issue date)	Finance Committee	Administration's information paper on "SME Financing Guarantee Scheme - Special 100% Guarantee Product" (FCRI(2020-21)19)